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Japan

Frozen Potato Products

Annual Commodity Report

2006

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Report Highlights:

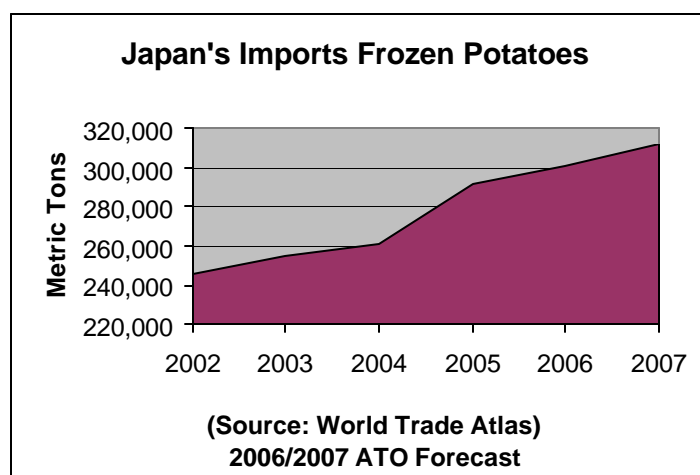
Japan's imports of frozen potato products increased around 12 percent in 2005/06 (July-June), from 267,895 metric tons (MT) in 2004/05 to 299,327 MT in 2005/06, due to the recovery in the Japanese economy and the corresponding increase in sales in the food service industry. U.S. exports to Japan of frozen potatoes in 2005/06 increased by 13.6 percent from the previous year because of the improving economy and strong sales by major fast food chains.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
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Executive Summary



Japan is by far the largest market for U.S. frozen fried potatoes (HS code 2004.10). Around 41 percent of all U.S. exports went to Japan in 2005. The second largest market for U.S. frozen potato exports is Mexico, amounting to only 15 percent of all U.S. frozen fried exports. The United States is also the largest supplier of frozen fried potatoes to Japan.

The frozen fried potato market is closely tied to the performance of fast food restaurants and amusement parks in Japan. Sales of frozen fried

potatoes are also impacted by the long vacation seasons in Japan. Annually, there are three peak periods of demand for frozen fried potatoes: 1) Golden week in late April and early May; 2) summer vacation season in late July and August; and 3) The New Year vacation season in early January.

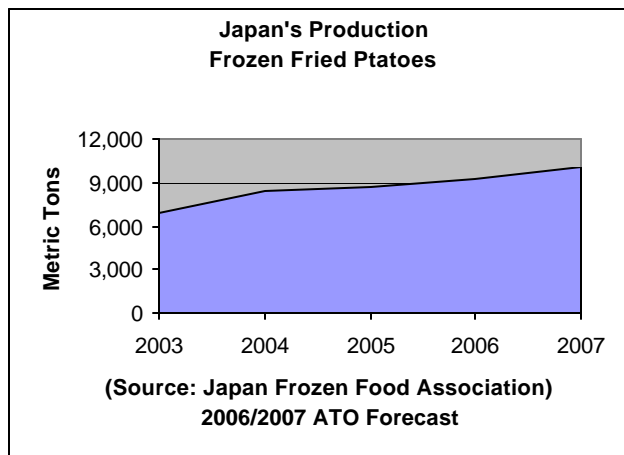
U.S. exports to Japan of frozen fried potatoes (H.S. code 2004.10) showed an increase of 13.6 percent in 2005/6 compared to the previous year. U.S. exports of frozen potatoes increased due to the improving economy and strong sales by major fast food chains.

With respect to Japanese consumer preferences, a trend of diversified eating habits among teenagers and younger-aged children are stabilizing fried potato consumption. On the other hand, the increasing older population creates demand for developing non-fried frozen potato products.

Finally, after U.S. suppliers replaced beef tallow with vegetable oil for pre-cooking fries (in response to BSE) in 2004, the concerns of Japanese importers were resolved and they are resuming their imports from the U.S. industry, which already had a reputation of reliability.

Production

Japan produced 2.7 million tons of fresh potatoes and delivered 2.2 million to the market in 2005, a decrease of 5 percent from the previous year due to elevated temperatures and drier weather in Hokkaido (the most northern of Japan's four main islands). Hokkaido produced 86% of fresh potatoes in the country and most domestic frozen potato products come from this region.



In 2005, domestic production of frozen fried potatoes increased 3.7 percent from 2004 to 8,687 MT. Production of non-fried frozen potatoes decreased 0.4 percent to 18,945 tons. Japanese total production of frozen potatoes increased slightly by 0.9 percent up in 2005.

Most domestic products went to the retail sector, with sales driven by consumer cooperative societies (Co-ops) and major manufacturers of frozen foods, such as Nichirai, Ajinomoto and Nichiro.

Domestic potato products are drawing greater attention from Japanese users, food manufacturers, retailers and the food service industry because of food safety concerns related to imported agricultural products. Japanese domestic production is expected to increase over the next two to three years because of the increase in demand for domestically grown potatoes.

Retail packaged products using domestic potatoes

Nichirei's fried potato product: package describes the potato made in Hokkaido	Ajinomoto's fried potato product: same sentence on the package

Domestic Production & Total Import: Quantity

July through next June: World Trade Atlas

HS Code	0710.10			
Description	Frozen Potato: cooked by steaming or boiling in water			
(Metric Tons)	2003	2004	2005	Change-05/04
Domestic Pro.	22,239	19,020	18,945	-0.4 %
Total Import	5,750	6,467	7,275	13.0 %
Non fry total	27,989	25,487	26,220	3.0 %

HS Code	2004.10			
Description	Frozen Potato: fried potatoes including mash and other potatoes			
(Metric Tons)	2003	2004	2005	Change-05/04
Domestic Pro.	6,855	8,375	8,687	3.7 %
Total Import	233,499	261,975	292,052	11.7 %
Fried total:	240,354	270,350	300,739	12.5 %

Total Frozen Potato Shipments

HS Code	0710.10 + 2004.10			
Description	Frozen Potato: Total Quantity (tons) and Share (%)			
	2003	2004	2005	Change-05/04
Total: tons	268,343	295,837	326,959	10.5 %
Total share: %	100.0 %	100.0 %	100.0 %	-
0710.10 Dome.	8.3 %	6.4 %	5.8 %	-9.4 %
0710.10 Import	2.1 %	2.2 %	2.2 %	0 %
2004.10 Dome.	2.6 %	2.8 %	2.7 %	-3.6 %
2004.10 Import	87.0 %	88.6 %	89.3 %	7.9 %

Trade

Total Japanese frozen fried potato (HS 2004.10) imports from the United States in 2005/06 increased by 11.7 percent to 234,093 tons. The increase in U.S. exports to Japan, which climbed 13.6 percent from the previous year, benefited from an improvement in the Japanese economy and robust sales of fast food restaurants.

Pub dining chains also have increasingly used imported frozen fried potatoes because of the popularity of the product with younger consumers. In addition, a small but growing trend is Japanese convenience stores selling a variety of fried potato products similar to those in fast food outlets. Major U.S. frozen potato manufacturers with representatives based in Japan were instrumental in generating this trend.

Imports of non-fry frozen potatoes (HS 0710.10) also increased by 13 percent in 2005/06. The Japanese food service industry used imported frozen potatoes instead of domestically produced fresh vegetables. Fresh vegetables were extremely expensive in 2005 due to heavy rains during harvest season.

Japanese manufactures are also developing products with a healthier image. Older Japanese consumers are becoming more concerned with cholesterol levels associated with any fried product as well as with weight gain. Retail buyers are seeking new food items to appeal to consumers' interest in healthier food, with Chinese products principally filling this market niche.

Example of non-fry potato products

Chinese made frozen cut potatoes	Chinese made small size potatoes	Chinese made mashed potatoes
		

Japanese Import of Frozen Potato Products: Quantity (Metric Tons)

July through June: World Trade Atlas

Frozen Potato	Fried, mashed and other (HS 2004.10)				Non-Fried (HS 0710.10)			
	2004/5	2005/6	Change 06/05%	Share %	2004/5	2005/6	Change 06/05%	Share %
World Total	261,459	292,052	11.7	100.0	6,436	7,275	5.7	100.0
U.S.A.	206,033	234,093	13.6	80.2	201	1,354	573.1	18.6
Canada	42,946	44,328	3.2	15.2	129	103	-19.9	1.4
China	1,649	3,899	136.5	1.3	5,763	5,301	-8.0	72.9
Belgium	2,377	2,938	23.6	1.0	0	3	NA	-
New Zealand	3,992	3,350	-16.1	1.1	3	0	NA	-
Germany	3,472	2,610	-24.8	0.9	Colombia	308	21.5	4.2
Netherlands	657	747	13.6	0.3	Vietnam	147	75	2.0

Policy

No significant change in these tariff code numbers

HS Code		Description	Rate of Duty
0710.10	0710.10-000	Frozen Potatoes: uncooked or cooked by steaming or boiling in water	8.5 %
2004.10	2004.10-100	Frozen Potatoes: Cooked, not otherwise prepared (fried potatoes)	8.5 %
	2004.10-210	Frozen Potatoes: Mashed potatoes	13.6 %
	2004.10-220	Frozen Potatoes: Other	9 %

Japan implemented two new regulations in 2006 related to the importation of frozen potato products. The first regulation is on the maximum residue level (MRL) on all food products, which was implemented on May 29, 2006. For information on MRLs, which may affect frozen potato products, please see the following website

<http://www.mhlw.go.jp/english/topics/foodsafety/positivelist060228/introduction.html>

and GAIN reports JA6004, JA6011, JA6025, JA6030.

The other regulation involves the importation of rice and rice products. Starting in August, 2006, the Japanese government implemented new biotech testing requirements for rice, which is often used as an ingredient in processed potato products.

For information about other Japanese food safety information, including food additives, please see the following website: <http://www.mhlw.go.jp/english/topics/foodsafety>.

Marketing

Japan has one of the most effective infrastructures in the world for distribution, handling and storage of all frozen products. Japan's infrastructure, which can accommodate the handling of frozen potato products, provides easy access for foreign competitors. In fact, around 30 countries exported frozen potato products to Japan last year.

Based on this infrastructure, population dynamics and increasingly favorable macroeconomic trends in the country, the food industry believes that Japan has a potential market capacity of more than 300,000 metric tons for frozen fried potatoes. The United States is in the best position to fulfill this anticipated market potential, although many other third-country competitors and some domestic Japanese producers are seeking every opportunity to increase market share.

Price

Import prices dramatically increased in 2005/06, up 10 percent (or 4 to 5 cents/pound) from 2004/05. This increase was due to the surge in petroleum prices and the rise in the price of domestic potatoes, which suffered from a crop shortage.

PS&D: Production, Supply and Distribution

Country	Japan									
Commodity	Potato Products, Frozen						(MT, Net Weight)			
	2004	Revised		2005	Estimate		2006	Forecast		UOM
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		07/2004	07/2004		07/2005	07/2005		07/2006	07/2006	MM/YYYY
Beginning Stocks	0	0	0	0	0	0	248,600	0	0	(MT, Net Weight)
Production	27,395	27,395	27,395	28,500	27,632	27,632	0	28,000	28,000	(MT, Net Weight)
Imports	216,848	267,895	267,895	220,600	299,327	299,327	0	301,000	301,000	(MT, Net Weight)
Total Supply	244,243	295,290	295,290	249,100	326,959	326,959	0	329,000	329,000	(MT, Net Weight)
Exports	653	276	276	500	309	309	0	330	330	(MT, Net Weight)
Domestic Consumption	243,590	243,590	243,590	248,600	326,650	326,650	0	328,670	328,670	(MT, Net Weight)
Ending Stocks	0	0	0	0	0	0	0	0	0	(MT, Net Weight)
Total Distribution	244,243	243,866	243,866	249,100	326,959	326,959	0	329,000	329,000	(MT, Net Weight)

(Total of HS 0710.10 and HS code 2004.10)

Frozen Potato Products Import Trade Matrix

Country	Japan		
Commodity	Potato Products, Frozen		
Time Period	Jul - Jun	Units:	Metric Ton
Imports for:	2004		2005
U.S.	206,234	U.S.	235,447
Others		Others	
Canada	43,075	Canada	44,431
China	7,412	China	9,200
Belgium	2,377	Belgium	2,941
New Zealand	3,995	New Zealand	3,350
Germany	3,472	Germany	2,610
Netherlands	657	Netherlands	747
Total for Others	60,988		63,279
Others not Listed	673		601
Grand Total	267,895		299,327